

FURTHER AND HIGHER EDUCATION ACT 1992

Account, prepared pursuant to Section 62 and para 16 of Schedule 1 to the Further and Higher Education Act 1992, of the Higher Education Funding Council for England for the year ended 31 March 2004, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 943 of 2002-2003)

Presented pursuant to Further and Higher Education Act 1992, c.13 Sch. 1, para 16(1)

Higher Education Funding Council for England Account 2003-2004

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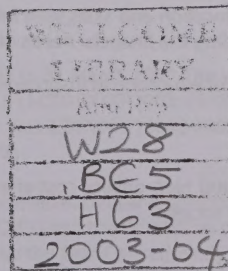
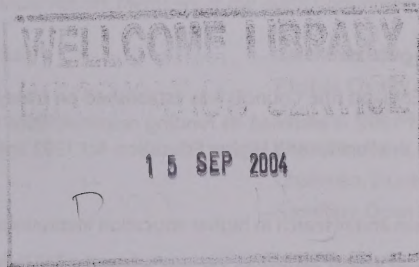
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Foreword

Members of the Board of the Council during 2003-2004

Mr David Young (Chairman)
Sir Howard Newby (Chief Executive)
Mr Steve Bundred
Mr Richard Coldwell
Professor Sir Ron Cooke (to August 2003)
Mrs Jackie Fisher
Mrs Ann Lloyd
Dr David Potter CBE (to August 2003)
Professor Sir Gareth Roberts
Professor Peter Rubin (from September 2003)
Mr Peter Saraga
Professor Nigel Savage
Professor Peter Scott
Sir Richard Sykes
Ms Anne Tate (from September 2003)
Sir John Taylor OBE (to December 2003)
Ms Dorma Urwin (to August 2003)

The Council's role and responsibilities

The Higher Education Funding Council for England (the Council) was established on 6 May 1992 under Section 62 of the Further and Higher Education Act 1992. It assumed its funding responsibilities from its predecessor councils on 1 April 1993. Its role is set out in the Further and Higher Education Act 1992 and can be summarised as

- to administer funds to support education and research in higher education institutions;
- to administer funds to support prescribed higher education courses in further education institutions;
- to provide the Secretary of State for Education and Skills with information relating to all aspects of higher education teaching and research, including the financial needs of the sector; and
- to secure the assessment of the quality of education at institutions in receipt of Council funding.

The Council's mission

Working in partnership, we promote and fund high-quality, cost-effective teaching and research, meeting the diverse needs of students, the economy and society.

Strategic aims

To achieve our mission, we aim to

- a provide the opportunity of higher education to all those who could benefit from it;
- b ensure that all higher education students benefit from a high-quality learning experience fully meeting their needs and the needs of society;

- c develop and sustain a dynamic research sector that holds a strong position among the world leaders, and makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge;
- d support all institutions in making a significant and measurable contribution, through knowledge transfer and related activities, to economic development and the strength of communities;
- e ensure excellent provision across the full range of activity within HE, by supporting institutions to focus on achieving excellence in what they do best and to collaborate based on their strengths;
- f provide support, through a broad-based partnership, to enhance further the sector's leadership, governance and management; and
- g ensure HEFCE can effectively deliver this strategic plan, working to the highest standards in all that we do.

System of internal control

The Chief Executive has made a statement on the Council's internal control systems. This statement is reproduced on pages 9 and 10 of these accounts.

Preparation of financial statements

The Council's financial statements are prepared in accordance with a direction given by the Secretary of State with the approval of the Treasury, in pursuance of paragraph 16(1) of Schedule 1 of the Further and Higher Education Act 1992. This direction is reproduced on page 41 of these accounts.

The 2003-2004 financial statements were scrutinised by the Audit Committee on 10 June 2004 along with the Assurance Service Annual Report. Members of the Audit Committee were

Mr Steve Bundred (Chair)*	Chief Executive, Audit Commission
Mr James Aston MBE	Partner, Charity and Education, BDO Stoy Hayward
Mrs Ann Lloyd*	Director, NHS Wales
Professor Nigel Savage*	Chief Executive, College of Law in England and Wales
Mr Michael Sheasby	Chairman, Brunel University Audit Committee
Mr Fraser Woodburn	Secretary, Open University

* also members of HEFCE's Board

Financial results for 2003-2004

These accounts cover the year 1 April 2003 to 31 March 2004. The vast majority of the Council's income is from Grant-in-Aid. In 2003-2004 this was £5,717,911,000 (2002-2003: £5,189,978,000). Within this sum the amount used for capital purposes (purchase of assets) was £267,000 (2002-2003: £286,000). Total income for the year was £5,765,641,000 (2002-2003: £5,223,943,000).

The Council aims to distribute the funds received each year within that year. The Financial Memorandum between the Department for Education and Skills (DfES) and the Council recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently the Council is permitted to carry forward up to 2 per cent on a cash basis, of the Grant-in-Aid provided for distribution to institutions and for its running costs.

In resource terms the Council is authorised to carry forward the relevant amount relating to slippage on capital programmes, and a further £10,000,000 relating to other programmes. This gives the Council some flexibility which enables us to plan expenditure efficiently. For the year ended 31 March 2004 the Council has resource balances of £23,769,000 for capital projects (2002-2003: £9,190,000) and £5,425,000 for other programmes (2002-2003: £5,973,000).

A provision has been recognised for the ongoing costs of inherited staff liabilities. These costs are expected to be incurred until 2020 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related

commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet as long term liabilities.

The results for 2003-2004 show a deficit of £36,109,000 (2002-2003: surplus of £12,120,000). This deficit is higher than would be expected due to a significant movement in the provision for inherited staff liabilities. An additional charge has been made to reflect the change in the cost of capital rate prescribed by HM Treasury. The 2003-2004 rate has been set at 3.5 per cent (2002-2003 rate: 6 per cent) which results in a net increase in the charge to the Income and Expenditure account of £63,616,000. If the effect of this charge is removed the results would show a surplus of £27,507,000. This represents the timing difference between receipt of Grant-in-Aid and the actual payments.

The accounts are audited by the Comptroller and Auditor General, who is appointed by Statute. The audit fee is £29,000 and he did not provide any non-audit services during 2003-2004.

Achievements in 2003-2004

During 2003-2004 the Council's principal achievements, its key performance targets and its performance against these targets were as follows

Strategic aim	KPT No.	2003-2008 Key performance targets	Achievements to 31 March 2004
<i>Widening Participation and Fair Access</i>			
To provide the opportunity of higher education to all those who could benefit from it.	1	To increase participation in higher education in line with the funding and policies set out in the annual grant letter provided by the Secretary of State.	Achieved for 2003-2004 In its January 2003 grant letter, the Government planned for growth of 16,000 HEFCE and TTA-fundable FTEs in the 2003-2004 academic year, with further growth by 2005-2006 of 45,000 FTEs. The overall growth achieved by the sector in 2003-2004 was 26,000 FTEs, so growth is ahead of the plan.
	2	Across the planning period the non-completion rate for English HEIs will remain the same as, or be less than, the benchmark value calculated from the start year 2002-2003.	In progress The performance indicators for non-completion published in December 2003 (HEFCE 2003/59) showed that the overall non-completion rate for English HEIs has not changed significantly.
<i>Enhancing Excellence in Learning and Teaching</i>			
To ensure that all higher education students benefit from a high-quality learning experience fully meeting their needs and the needs of society.	3	All new staff in HE to be trained to agreed professional national teaching standards by 2006.	On target The consultation document on professional standards was issued in May 2004.
	4	At least 95 per cent of institutions being audited by the Quality Assurance Agency receive judgements of broad confidence throughout the plan period.	Achieved for 2003-2004 The QAA audit reports published between July and December 2003 show 100 per cent broad confidence.

Strategic aim	KPT No.	2003-2008 Key performance targets	Achievements to 31 March 2004
<i>Enhancing Excellence in Learning and Teaching (continued)</i>			
	5	A new Academy to support quality enhancement in learning and teaching will be set up by the end of 2004 and its impact reviewed by 2008.	On target The HE Academy will be operational from August 2004.
	6	Seventy Centres of Excellence in teaching will be established by 2006 and their impact evaluated by 2008.	On target The invitation to apply for funding was issued in January 2004 (HEFCE 2004/05).
	7	We will consult on and implement a new funding method which supports our strategic plan priorities and the Government's policies on higher education and tuition fees.	In progress In December 2003, following consultation with the sector, we announced a number of changes to the existing method of funding to be applied from 2004-2005. In addition, we committed to a wider ranging review - which has now been initiated.

Enhancing Excellence in Research

To develop and sustain a dynamic research sector that holds a strong position among the world leaders, and makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.

	8	To maintain the UK's leading international position in research excellence throughout the planning period.	In progress We have maintained funding for RAE top rated departments. In addition we have allocated additional capital funding to four institutions with the highest research income.
	9	To develop and implement a new process for assessing research by 2008 that informs stakeholders about relative performance and recognises the diversity of outputs of research effort in different disciplines.	On target We have recently published the initial decisions and structure for the next Research Assessment Exercise (RAE). In addition we are currently consulting on issues relating to panel configuration and recruitment.
	10	To demonstrate improved sustainability of the national research base by 2008.	In progress We are continuing to develop and implement the TRAC methodology. In addition we are working with key stakeholders (including the research councils and Government) to ensure that the full economic costs of research are recovered.

Strategic aim	KPT No.	2003-2008 Key performance targets	Achievements to 31 March 2004
<i>Enhancing the Contribution of HE to the Economy and Society</i>			
To support all institutions in making a significant and measurable contribution, through knowledge transfer and related activities, to economic development and the strength of communities.	11	By 2005 we will be able to demonstrate the year on year improvement in the collaborative and individual interactions of all HEIs with business and the community, related to national social and economic benefit and evaluated from annual collection of robust data.	On target The HE-business interaction survey carried out in 2003 has recently been published (HEFCE 2004/07). It shows continuing significant year on year improvement in the performance of the UK HE sector.
	12	To develop by 2005-2006 a set of objective measures of what is delivered over the planning period from an established baseline.	On target The 2004 survey is now planned, with refinements and enhancements to enable the 2005-2006 target to be met.
	13	By 2008, we intend to have secured funding to support these activities at an aggregate annual level across the sector greater than that announced in the 2002 spending review.	On target The Lambert Report recommends a further increase of up to 50 per cent in the funding for the third stream, to be determined through the 2004 Spending Review. This would influence the funding from 2006-2007 onwards.
<i>Building on Institutions' Strengths</i>			
To ensure excellent provision across the full range of activity within HE, by supporting institutions to focus on achieving excellence in what they do best and to collaborate based on their strengths.	14	By 2006, all HEI corporate plans to identify clearly both how the institution will develop and sustain distinctive excellence in one or more of its areas of relative strength, and its plans for collaboration related to its mission.	In progress We are currently considering the guidance we give to institutions on corporate planning. This will feed into the delivery of this KPT.
<i>Developing Leadership, Governance and Management</i>			
To provide support, through a broad-based partnership, to enhance further the sector's leadership, governance and management.	15	By 2008 all HEIs will show measurable improvements in at least one dimension of equal opportunities.	On target All institutions have a race equality policy and action plan in place, according to their statutory duty under the Race Relations (amendment) Act 2000. 36 HEIs were given 'exemplary' status in recent independent review.
<i>Excellence in Delivery</i>			
To ensure HEFCE can effectively deliver this strategic plan, working to the highest standards in all that we do.	16	By the end of the planning period, HEFCE to be assessed by the European Foundation for Quality Management as maintaining level 2 - 'Recognised for Excellence'.	On target Significant progress has been made in managing our five key business processes, and work continues to further develop the way we assess and track business results.

Consultation with employees

The Council recognises the Public and Commercial Services (PCS) union as specified in our partnership agreement and regularly consults with all staff and the PCS union on changes concerning employee relations within the organisation, taking into account the differing views and opinions of colleagues. The Council, along with other public bodies, has published its Race Equality Scheme (May 2002) as required under the Race Relations (Amendment) Act 2000. As part of this scheme the Council remains committed to consult with staff from all ethnic groups about any changes to the Council's equal opportunities policies to ensure appropriateness and effectiveness.

Conversion to the single currency

In accordance with the guidance issued by the Euro Preparations Unit of HM Treasury, the HEFCE has prepared and submitted an outline of its plans and preparations for conversion of its systems and procedures to the single European currency. This plan relates only to the Higher Education Funding Council for England and does not take into account the Higher Education sector itself. It is anticipated that the HEFCE would be able to successfully convert its systems and procedures from sterling to the Euro at a relatively low cost and with little reorganisation. No significant cost has been incurred to date.

Equal opportunities

The Council has updated its Diversity and Equal Opportunities policy in line with its Race Equality Scheme and in order to comply with the Race Relations Amendment Act 2000. The Council's Race Equality Scheme was also published in May 2002. The Council is committed to making race equality and equal treatment - irrespective of gender, disability, sexuality, age or religious belief - a core element in the way services are delivered and in the way the Council is managed.

Management information and financial systems

During 2003-2004 the Council has reviewed its current computerised financial systems, which were installed in 1996. The review highlighted a number of key issues which were making existing systems obsolete, and a number of areas where a modern, integrated system would deliver significant benefits to the Council and to the HE sector as a whole. As a result we will, in 2004-2005, be implementing a new management information system which will enable us to deliver significant benefits in terms of more efficient business processes and significantly improved management information to both internal and external stakeholders.

Payment of creditors

The Council is fully committed to the prompt payment of its suppliers' invoices and supports HM Treasury's Better Payment Practice Code. The Council aims to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is the later. All suppliers have been notified of this commitment and have been given clear guidelines to help the Council achieve this aim. Throughout the year the Council monitors actual performance against the 30 day target. During the financial year 2003-2004 the target was met for over 99 per cent of invoices (2002-2003: 99 per cent).

Quality Assurance Agency

The Council has a statutory role to secure the assessment of the quality of education at institutions in receipt of its funding. A contract with the Quality Assurance Agency for Higher Education fulfils this role.

Sir Howard Newby
Chief Executive and Accounting Officer
Higher Education Funding Council for England

17 June 2004

Statement of the Higher Education Funding Council for England and the Chief Executive's responsibilities

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for England (the Council) is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Education and Skills (appendix 2), with the consent of the Treasury. The accounts are prepared on an accruals basis (modified by the revaluation of fixed assets) and must show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Council is required to

- observe the accounts direction issued by the Secretary of State for Education and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the body will continue in operation.

The Accounting Officer for the Department for Education and Skills has designated the Chief Executive as the Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Statement by the Chief Executive on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I also acknowledge my responsibilities in respect of the funds provided to the Council which are transmitted to higher and further education institutions and others for education, research and associated purposes.

I also have a joint responsibility with the DfES in delivering the Government's White Paper 'The future of higher education' as set out in the DfES/HEFCE protocol for joint working.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Council's current approach to risk management is set out in HEFCE's 'Assurance Framework' which was approved by the Board in April 2003 and is available on both our internal and external websites. This is a revised and updated version of the 'Internal control and risk management framework' issued in June 2001. The Assurance Framework explains the Council's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in the Council's strategic and operational planning processes.

While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks, I am supported in this process by my Directors and senior management team. The annual action plan for risk management is approved by the Strategic Planning Steering Group (SPSG). The membership of this group encompasses the four directors and senior managers from across the Council.

The Council's 20 strategic risks all relate directly to one of the seven strategic themes as set out in HEFCE's 2003-2008 strategic plan. Each theme is allocated to one of my four directors and as a result they are also the identified owners of the strategic risks which relate to each theme. These responsibilities are acknowledged by each director in an annual risk management statement, which sets out the strategic risks that they have been responsible for managing. These statements also acknowledge any other responsibilities directors have which contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes). To support them in this process they in turn receive an annual assurance statement from their own directorate assurance team (DAT) which provides them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate.

The risk and control framework

The Council's approach to risk management is based on a process designed to identify the significant risks to achieving HEFCE's objectives, to evaluate the nature and extent of these risks and to manage them effectively, efficiently and economically. HEFCE's Assurance Framework sets out more fully the Council's risk management policy. Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives.

The 20 strategic risks were identified alongside the development of our 2003-2008 strategic plan and therefore relate directly to one of the seven strategic aims or themes identified in the plan. In addition, the monitoring of strategic risks is fully embedded in the process to monitor our operational performance and the associated reports. Quarterly reports, which go to the Chief Executive's Group (CEG) and the Board, provide a summary of the 20 strategic risk scores, highlighting the highest scoring risks, explaining any movements in risk scores and

providing a total risk score for the portfolio of risks to enable the overall movement in the risk portfolio to be monitored over time. This quarterly monitoring system endeavours to identify new and changing risks, confirm the controls are operating in respect of the key risks and provide an evaluation of the effectiveness of those controls.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. Our system of internal control must also take into account the funds provided by the Council which are transmitted to higher and further education institutions (and related bodies) for education, research and associated purposes. The Council's internal control framework therefore needs to encompass our operational controls, our financial controls and compliance controls.

The internal control framework consists of policies, procedures, monitoring and communication which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. Ongoing review and monitoring of these controls is carried out by each director. As part of the effectiveness review process I seek assurance from my directors on these controls (via their risk management statements) and I then also review the key annual controls which inform this statement. I also receive a statement on internal control from the Executive Secretary of the Joint Information Systems Committee to inform my review of effectiveness.

Each of the key annual controls (Director's risk management statements, the production of the financial statements and the Assurance Service annual report) have been considered by the Audit Committee (with onward reports to the Board). I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on the implications and, where appropriate, action has been taken or is planned to address the issues arising.

During the year, our control systems (which cover our internal controls and the institutions and related bodies risk management system) have identified issues that have required specific actions to be taken to manage the associated risks. Details of the most significant issues identified in the year and the actions taken have been recorded in the individual risk management statements prepared by each of my directors. Of these, the issues relating to the eUniversities (one of the Council's related bodies) is considered to be sufficiently significant to warrant disclosure here.

Following a review of the eUniversities plans we announced in February 2004 that we would be holding immediate talks with the eUniversities on restructuring their activities and services - in light of changes in the global financial markets and the fact that student recruitment had not met planned targets in the first year. In April 2004, the HEFCE Board decided that in future HEFCE funding should support the development of e-learning in universities and colleges and that we should continue with our plans of scaling down and transferring activities carried out by the eUniversities. This process is still in train and is being kept under constant review.

The risks surrounding this issue have been actively managed within the existing internal control framework and overseen by the Audit Committee and the Board. Some refinements to our related bodies framework and associated support strategy will be made in light of lessons learnt from this issue.

Sir Howard Newby
Chief Executive and Accounting Officer
Higher Education Funding Council for England

17 June 2004

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 13 to 34 under the Further and Higher Education Act 1992. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 to 19.

Respective responsibilities of the Higher Education Funding Council for England, the Chief Executive and Auditor

As described on page 8, the Council and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills, and for ensuring the regularity of financial transactions. The Council and the Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills, whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and whether the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 9 and 10 reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of Audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Higher Education Funding Council for England at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

22 June 2004

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Income and Expenditure account for the year to 31 March 2004

	Notes	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Income			
HM Government grants receivable	2	5,717,685	5,189,705
Transfer from deferred grant account	14	226	273
Other income	3	47,730	33,965
		5,765,641	5,223,943
Expenditure			
<i>Grants payable to institutions</i>			
Recurrent and capital expenditure	4	5,593,656	5,073,129
Access and hardship funds	4	110,192	105,021
Provision reversed unused in year	12	(3,544)	(3,070)
<i>Council administration costs</i>			
Staff costs	5c	9,544	8,284
Other administration	6	7,954	7,410
Depreciation	7	204	259
		5,718,006	5,191,033
Operating surplus/(deficit) before interest		47,635	32,910
Notional interest on capital	8	11,856	19,603
Unwinding of discount	12	(11,734)	(20,790)
Increase in provision	12	(72,010)	0
Operating surplus/(deficit) after interest		(24,253)	31,723
Reversal of notional interest on capital		(11,856)	(19,603)
Surplus/(deficit) for the period		(36,109)	12,120

All HEFCE operations are continuing.

The notes on pages 17 to 34 form part of these accounts.

Statement of Total Recognised Gains and Losses as at 31 March 2004

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Surplus/(deficit) per income and expenditure account	(36,109)	12,120
Unrealised surplus/(deficit) on revaluation	0	2
Total recognised gains and losses for the year	(36,109)	12,122

Balance Sheet as at 31 March 2004

	Notes	As at 31 March 2004 £000	As at 31 March 2003 £000
Fixed assets			
Tangible assets	7	<u>296</u>	<u>255</u>
Current assets			
<i>Loans to Institutions</i>	9a		
Falling due within one year		6,246	4,688
Falling due after one year		13,274	15,196
Loans to staff	9b	0	2
Debtors	9c	13,111	8,777
Cash at bank and in hand	10	<u>17,408</u>	<u>8,954</u>
		50,039	37,617
Creditors			
Amounts falling due within one year	11	<u>(6,994)</u>	<u>(10,207)</u>
Net current assets		43,045	27,410
Total assets less current liabilities		43,341	27,665
Provisions for liabilities and charges	12	<u>(387,008)</u>	<u>(335,264)</u>
Total net assets/(liabilities)		<u>(343,667)</u>	<u>(307,599)</u>
Represented by			
Accruals and deferred income			
Deferred government grant	14	296	255
Reserves			
General reserve	15	<u>(343,963)</u>	<u>(307,854)</u>
		<u>(343,667)</u>	<u>(307,599)</u>

Sir Howard Newby
Chief Executive
Higher Education Funding Council for England

17 June 2004

The notes on pages 17 to 34 form part of these accounts.

Cash Flow Statement for the year to 31 March 2004

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Operating activities		
<i>Receipts</i>		
HM Government grant funds received through the Department for Education and Skills		
Programme funds	5,700,896	5,174,893
Running costs	16,633	14,811
Other receipts	41,989	31,568
Repayment of institution loans	4,688	467
Repayment of staff loans	2	3
	<u>5,764,208</u>	<u>5,221,742</u>
<i>Payments</i>		
Funding paid to institutions	5,733,982	5,206,110
Administration costs	17,448	15,700
Loans to institutions	4,324	8,276
Loans to staff for approved purposes	0	1
	<u>5,755,754</u>	<u>5,230,087</u>
Net cash inflow/(outflow) from operating activities	8,454	(8,345)
Capital expenditure		
Purchase of tangible fixed assets	(267)	(286)
Sale of fixed assets	<u>0</u>	<u>0</u>
Net cash outflow from capital expenditure	(267)	(286)
Financing		
Transfer to deferred government grant	<u>267</u>	<u>286</u>
Net cash inflow/(outflow)	8,454	(8,345)

1 Reconciliation of operating surplus to net cash flow from operating activities

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Operating surplus/(deficit)	47,635	32,910
Depreciation and impairment	226	273
Release from deferred government grant	(226)	(273)
Decrease/(increase) in debtors and loans	(3,968)	(11,232)
Increase/(decrease) in creditors	(3,213)	1,999
Payment from provisions	(28,456)	(28,952)
Provision reversed unused in year	(3,544)	(3,070)
Net cash inflow/(outflow) from operating activities	8,454	(8,345)

2 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Net funds at 1 April	8,954	17,299
Increase/(decrease) in cash for the year	8,454	(8,345)
Net funds at 31 March	17,408	8,954

Notes to the Accounts for the year to 31 March 2004

1 Accounting policies

Basis of accounting

These accounts are drawn up in accordance with a Direction (see Appendix 2) given by the Secretary of State for Education and Skills, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1). The accounts are prepared under the historical cost convention, modified by revaluation of fixed assets and in accordance with the requirements of the Companies Act 1985 and applicable Accounting Standards issued or adopted by the Accounting Standards Board with the exception of the requirements of FRS 3 for the inclusion of a note showing historical cost profits and losses.

In accordance with FRS 18 the accounting policies and estimation techniques used are those that are judged to be the most appropriate for the purpose of giving a true and fair view. These policies are reviewed regularly to ensure they remain the most appropriate.

Deferred government grant

In accordance with Treasury Accounting Guidance for Non Departmental Public Bodies, where an asset's value is increased as a result of revaluation, the increase is credited to the Deferred Government Grant reserve. Where an asset is impaired as a result of downward revaluation the charge is taken to the Income and Expenditure account with a corresponding release from Deferred Government Grant. On disposal of an asset any profit or loss is taken to the Income and Expenditure account with a corresponding transfer from the Deferred Government Grant. The balance on the Deferred Government Grant reserve is then transferred to the General reserve.

Financial instruments

FRS 13 requires organisations to disclose information on the possible impact of financial instruments on its risk profile, and how these risks might affect the organisation's performance and financial condition. As a Non Departmental Public Body funded by the Government the HEFCE can confirm that it is not exposed to any liquidity or interest rate risks. The Council has no overseas operations and does not operate any foreign currency bank accounts; as such it is not subject to any foreign currency risks.

Fixed assets

Expenditure on the acquisition of tangible fixed assets is capitalised at the lower of cost or net book value where the costs for an individual asset, or group of assets, exceed £2,500. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows

Buildings	10 years
Fixtures, fittings and furniture	five years
Office equipment	four years
Computer equipment	three years

A full year's depreciation is provided in the year of acquisition and none in the year of disposal. Assets are revalued each year in accordance with indices produced by the Office for National Statistics.

Going concern

Parliament has voted Grant in Aid to the Council for the 12 months following the Balance Sheet date. Despite its Balance Sheet position of net liabilities the Council therefore trades as a going concern.

Grants from the Department for Education and Skills

Institutional grants are accounted for in accordance with the purpose of the grant and are credited to the Income and Expenditure account in the year of receipt. Grant in Aid to finance Access Funds is accounted for separately. Grants for the Council's running costs are credited to the Income and Expenditure account when applied for recurrent purposes, but credited to the Deferred Grant account when applied to meet the cost of acquiring or constructing assets which are capitalised. The Deferred Grant account is released to the Income & Expenditure account over the estimated useful life of the related assets.

Joint arrangements

The Council contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the HE sector as a whole, rather than for investment purposes, and HEFCE does not retain any residual rights in these organisations. For some of these related bodies the Council nominates directors on behalf of the HE sector but seeks to exert no influence over these directors or over the organisations themselves. These related bodies include the following organisations

- Arts and Humanities Research Board (AHRB);
- Higher Education Academy (HEA);
- Higher Education and Research Opportunities (HERO);
- Higher Education Policy Institute (HEPI);
- Higher Education Statistics Agency (HESA);
- Institute for Learning and Teaching in Higher Education (ILT);
- Leadership Foundation for Higher Education;
- The Quality Assurance Agency for Higher Education (QAA);
- United Kingdom Education and Research Networking Association (UKERNA); and
- UkeUniversities Worldwide Ltd.

(Details of the Council funding granted to these organisations is given in Appendix 1.)

The Council reviews its joint arrangements with related bodies annually, taking into consideration the requirements of Generally Accepted Accounting Practice and HM Treasury guidance for Executive Non-Departmental Annual Reports and Accounts. The review considers, subject to materiality, whether these bodies should be treated as subsidiaries, associates or joint ventures in HEFCE's financial statements. The Council is satisfied that for the financial year ended 31 March 2004 no related bodies meet all the necessary criteria for inclusion.

The Council has certain agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Council includes its share of assets, liabilities and cashflows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Council's interest in the joint arrangement.

The Joint Information Systems Committee (JISC) meets the definition of a joint arrangement that is not an entity under FRS 9. Funding is provided to the JISC from the Council, which also distributes funds from the other UK funding bodies. This income and expenditure is accounted for gross in the HEFCE's financial statements.

Leases

Rentals payable for operating leases are charged to the Income and Expenditure account when they fall due.

Notional costs

Treasury guidance in respect of Non Departmental Public Bodies' Annual Reports and Accounts requires NDPBs to disclose the full cost of their activities in their accounts. The Council has therefore included in its accounts charges for the notional cost of capital. The cost of capital has been arrived at by calculating a rate of 3.5 per cent to the average capital employed. In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

Payment of grants to institutions

Grants to institutions are recognised when they fall due for payment. Grants to institutions to finance specific capital expenditure are subject to repayment in full, or in part, if the assets purchased are disposed of. The Council has discretion to allow such sale proceeds to be used to finance new capital projects.

Pension costs

Employees of the Council are members of the Principal Civil Service Pension Scheme (PCSPS), and the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply to the employees of the Council. The PCSPS, is a multi employer defined benefit scheme (treated for accounting purposes as a defined contribution scheme). In the year ended 31 March 2004 the Council paid contributions of £998,000 (2002-2003: £884,000) to the PCSPS. Contribution rates are determined from time to time by the Government Actuary and advised by the Treasury. For 2003-2004 these rates varied between 12 per cent and 18.5 per cent (2002-2003: 12 per cent and 18.5 per cent) of salary depending on staff salary bands.

For staff transferred from a higher education institution the Council pays contributions to the Universities Superannuation Scheme. During the year there has been one member of staff to whom this relates. For 2003-2004 these contributions amounted to £18,000 (2002-2003: £22,000). For 2003-2004 the rate of employers contribution was 14 per cent (2002-2003: 14 per cent) of salary.

Provisions for liabilities and charges

Provisions are recognised when the Council has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision has been recognised for inherited staff liabilities. These costs are expected to be incurred until 2020 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet as long term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value. The discount factor used is the HM Treasury prescribed rate of 3.5 per cent.

Taxation

The Council does not trade and hence is not liable for Corporation Tax. HM Customs and Excise has granted the HEFCE an exemption from registration for VAT on the basis that taxable supplies made by the Council are wholly or mainly zero-rated.

2 HM Government grants receivable

This note shows the Grant in Aid receivable from the Department for Education and Skills during the year. The Grant received is part of the Department's Resource Account.

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Programmes		
Recurrent and capital expenditure	<u>5,592,161</u>	<u>5,068,878</u>
	5,592,161	5,068,878
Running costs		
Administration costs	17,056	15,097
Transferred to deferred grant	<u>(267)</u>	<u>(286)</u>
	16,789	14,811
Other grant income		
Access funds	97,525	96,814
Post Graduate Certificate in Education	<u>11,210</u>	<u>9,202</u>
	108,735	106,016
Total grant in aid	<u>5,717,685</u>	<u>5,189,705</u>

3 Other income

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Programmes		
<i>Funding receivable from other Councils for joint initiatives</i>		
Department for Employment and Learning	1,056	961
Higher Education Funding Council for Wales	1,724	2,177
Learning and Skills Councils	33,796	20,760
National Council for Education and Training Wales	969	900
Scottish Further Education Funding Council	1,503	1,137
Scottish Higher Education Funding Council	3,015	3,157
Miscellaneous programme income	<u>4,851</u>	<u>4,127</u>
	46,914	33,219
Running costs		
<i>Contributions receivable from other Councils for administration costs</i>		
Department for Employment and Learning Northern Ireland	198	175
Higher Education Funding Council for Wales	36	35
Learning and Skills Councils	359	317
National Council for Education and Training Wales	21	19
Scottish Further Education Funding Council	34	30
Scottish Higher Education Funding Council	87	84
Income from activities		
Conferences	29	27
Publications	20	31
Reimbursement for international projects	13	19
Miscellaneous	<u>19</u>	<u>9</u>
	816	746
Total other income	<u>47,730</u>	<u>33,965</u>

4 Analysis of recurrent and capital grants

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Basic recurrent grant	4,356,405	4,098,537
Rewarding and developing staff	159,354	105,929
Learning and teaching	67,139	62,614
Widening participation	43,630	23,505
Research	85,998	88,310
Business and the community	54,715	54,562
Building institutions' strengths	33,957	48,225
Leadership, governance and management	5,905	5,178
Residual special funding	148,021	130,894
Capital	638,532	455,375
Total recurrent and capital grants	5,593,656	5,073,129
Access and hardship funds	110,192	105,021
Total	5,703,848	5,178,150

A detailed analysis of the grant expenditure summarised above is given in Appendix 1 to the Accounts. The above list has been reclassified this year to reflect the seven theme structure set out in the strategic plan for 2003-2008. Prior year figures have also been restated on this basis.

The Board Members certify that Government grants have been used by the Council only for approved purposes.

5 Salaries and wages

5a Board members' emoluments and expenses

The Board consists of up to 15 members, including the Chairman and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for a term of two or three years by the Secretary of State for Education and Skills. The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

The Chairman's total emolument consists of a salary. The Chairman does not participate in the Council's pension scheme, the Principal Civil Service Pension Scheme (PCSPS).

The salary and pension entitlements of the Chairman are given below. Figures shown are full year values unless otherwise stated.

	Year ended 31 March 2004 £	Year ended 31 March 2003 £
Emoluments of the Chairman , David Young		
Age at 31 March 2004	62	
Number of years service at 31 March 2004	3	
Basic salary as at 1 April 2003	41,000	40,000
Annual pay increase	923	1,000
Basic salary as at 31 March 2004	41,923	41,000
Remuneration received during the year	41,923	41,000

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State.

The salary and pension entitlements of the Chief Executive are given below. Figures shown are full year values unless otherwise stated.

		Year ended 31 March 2004 £	Year ended 31 March 2003 £
Emoluments of the Chief Executive , Sir Howard Newby CBE			
Age at 31 March 2004	56		
Number of years service at 31 March 2004	3		
Basic salary as at 1 April 2003		123,000	120,000
Pay increase including performance related pay		2,768	3,000
Basic salary as at 31 March 2004		125,768	123,000
Bonus		12,577	12,300
Employers pension contributions (USS) *		17,607	17,220
Salary (including pension contributions)		155,952	152,520
Additional expenses (benefit in kind) **		4,500	791
		160,452	153,311
Remuneration received during the year		142,894	135,841
Pension increase (net of inflation)		1,314	1,892
Total accrued pension at 31 March 2004 ***		49,521	46,894

* As a member of staff transferred from a higher education institution the Chief Executive is a member of the Universities Superannuation Scheme (USS), rather than the PCSPS.

** The Remuneration Committee has secured agreement from the Secretary of State to the payment of a gross monthly accommodation allowance of £1,500 towards the cost of private accommodation in London instead of hotel costs. This payment took effect from January 2004.

*** The accrued pension for the Chief Executive is based on his pensionable service with USS since joining in 1972. Following clarification from USS the Chief Executive's bonus is no longer included in the pension calculation and the 2002-2003 figures have been restated accordingly.

Non Executive Board members are eligible to receive an annual honorarium, which is not pensionable.

Non-executive honoraria

		Year ended 31 March 2004 £	Year ended 31 March 2003 £
Mr Steve Bundred		5,000	4,000
Mr Richard Coldwell		5,000	4,000
Professor Sir Ron Cooke	(to August 2003)	2,083	4,000
Mrs Jackie Fisher		5,875	1,567
Mrs Ann Lloyd		0	0
Ms Caroline Neville	(to October 2002)	0	2,333
Dr David Potter CBE	(to August 2003)	2,083	4,000
Professor Sir Gareth Roberts		5,000	4,000
Professor Peter Rubin	(from September 2003)	3,333	0
Mr Peter Saraga		5,000	2,667
Professor Nigel Savage		5,875	3,133
Professor Peter Scott		5,000	4,000
Ms Barbara Stephens	(to July 2002)	0	2,000
Sir Richard Sykes		5,875	2,350
Ms Anne Tate	(from September 2003)	3,333	0
Sir John Taylor OBE	(to December 2003)	0	0
Ms Dorna Urwin	(to August 2003)	2,083	4,000
		55,540	42,050

For 2003-2004 the Secretary of State approved an increase in the level of honorarium paid to Board members from £4,000 to £5,000. This was the first increase since HEFCE was set up in 1992.

In lieu of an honorarium certain Board members are paid directly by their employing institutions, with the subsequent reimbursement from the HEFCE to these institutions including VAT

- **Mrs Jackie Fisher** is paid by Newcastle College. Of the total reimbursement to the College, Mrs Fisher receives £5,000 in lieu of an honorarium for her services provided in 2003-2004.
- **Professor Nigel Savage** is paid by the College of Law. Of the total reimbursement to the College, Professor Savage receives £5,000 in lieu of an honorarium for his services provided in 2003-2004.
- **Sir Richard Sykes** is paid by the Imperial College of Science, Technology and Medicine. Of the total reimbursement to the College, Sir Richard receives £5,000 in lieu of an honorarium for his services provided in 2003-2004.

For the year 2003-2004 **Mrs Ann Lloyd** waived her right to an honorarium valued at £5,000 (£2,667 in 2002-2003).

Sir John Taylor was a Board member as part of his duties for the Office of Science and Technology and therefore was not entitled to an honorarium.

5b Senior employees

This note details the salary and pension entitlements of the most senior members of the HEFCE. The Council is structured around four directorates which align with the four strategic aims in HEFCE's 2003-2008 strategic plan. Salary and pension details are given for the four directors currently in post.

		Year ended 31 March 2004 £	Year ended 31 March 2003 £
Emoluments of the Director - Learning and Teaching, Liz Beaty*			
Age at 31 March 2004	50		
Number of years service at 31 March 2004	2		
Basic salary as at 1 April 2003*		77,000	0
Pay increase including performance related pay		3,911	0
Basic salary as at 31 March 2004		80,911	77,000
Non consolidated bonus		839	0
Employers pension contributions		14,951	14,245
Salary (including pension contributions)		96,701	91,245
Remuneration received during the year		81,753	32,083
Pension increase (net of inflation)		1,022	481
Total accrued pension at age 60 at 31 March 2004		1,517	481
Emoluments of the Director - Research and Knowledge Transfer, Rama Thirunamachandran*			
Age at 31 March 2004	37		
Number of years service at 31 March 2004	2		
Basic salary as at 1 April 2003*		77,000	0
Pay increase including performance related pay		3,911	0
Basic salary as at 31 March 2004		80,911	77,000
Non consolidated bonus		839	0
Employers pension contributions		14,969	14,245
Salary (including pension contributions)		96,719	91,245
Remuneration received during the year		81,753	73,024
Pension increase (net of inflation)		1,099	1,706
Total accrued pension at age 60 at 31 March 2004		5,057	3,850

* The Director - Research and Knowledge Transfer was appointed on 1 September 2002 and the Director - Learning and Teaching on 1 November 2002. They received no additional pay increases between the date of appointment and 31 March 2003.

	Year ended 31 March 2004 £	Year ended 31 March 2003 £
Emoluments of the Director - Widening Participation, John Rushforth*		
Age at 31 March 2004	50	
Number of years service at 31 March 2004	2	
Basic salary as at 1 April 2003*	77,000	0
Pay increase including performance related pay	3,514	0
Basic salary as at 31 March 2004	80,514	77,000
Non consolidated bonus	671	0
Employers pension contributions	14,896	14,245
Salary (including pension contributions)	96,081	91,245
Remuneration received during the year	81,188	71,860
Benefit in kind received during the year**	0	3,138
Pension increase (net of inflation)	1,142	2,455
Total accrued pension at age 60 at 31 March 2004	9,058	7,700
Emoluments of the Director - Finance and Corporate Resources, Steve Egan		
Age at 31 March 2004	46	
Number of years service at 31 March 2004	7	
Basic salary as at 1 April 2003	81,594	77,136
Pay increase including performance related pay	3,934	4,458
Basic salary as at 31 March 2004	85,528	81,594
Non consolidated bonus	1,509	913
Employers pension contributions	15,823	15,096
Salary (including pension contributions)	102,860	97,603
Remuneration received during the year	87,041	82,507
Pension increase (net of inflation)	1,203	1,236
Total accrued pension at age 60 at 31 March 2004	8,018	6,630

* The Director - Widening Participation was appointed on 1 September 2002. He received no additional pay increases between the date of appointment and 31 March 2003.

** In his previous post John Rushforth was entitled to the use of a Council funded car. The entitlement to a car ceased upon appointment to the post of Director.

Employer Pension Notice 92 (issued on 22 March 2004) set out a new disclosure requirement for pension entitlements for senior employees to include a Cash Equivalent Transfer Value (CETV). Given the late issue of this EPN, HM Treasury were content for HEFCE to postpone implementation until 2004-2005.

5c Staff costs

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Staff directly employed by the HEFCE		
Salaries	7,230	6,354
National Insurance contributions	617	489
Pension costs	1,016	906
	8,863	7,749
Costs of employing contract, agency and temporary staff	681	535
	9,544	8,284

Staff numbers

	Year ended 31 March 2004 Number	Year ended 31 March 2003 Number
<i>The average actual number of staff employed excluding the Chief Executive but including the four directors, was</i>		
Finance & Corporate Resources Directorate*	137	0
Learning & Teaching Directorate*	30	0
Research & Knowledge Transfer Directorate*	28	0
Widening Participation Directorate*	36	0
Central and support staff**	23	0
Directorate of Finance and Corporate Resources	0	83
Directorate for Institutions	0	77
Policy Directorate	0	75
Central and Support staff	0	5
	254	240
Average number of contract, agency and temporary staff	22	18
	276	258

The Council was restructured at the end of 2002-2003 to align the directorates with the four key strategic aims in the 2003-2008 strategic plan. The new structure was fully in place from 1 April 2003. The breakdown of staff numbers for 2003-2004 reflect the new directorate structure and figures for 2002-2003 reflect the previous structure.

* The four new directorates now each cover a sub-set of institutions (by region). Therefore staff from regional teams have been allocated across all four new directorates.

** Central and support staff now includes the International team and Corporate Communications.

Salaries

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pay settlements consist of an element of revaluation to take account of the effects of inflation, and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year (1 April for Directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non consolidated lump sums above it. Members of staff are also eligible for a non-consolidated performance related bonus.

Pensions

The Council contributes to two pension schemes, the PCSPS and the USS.

The PCSPS is an unfunded multi-employer defined benefit scheme notionally backed by the Government. The Council is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003-2004 employers' contributions were payable to the PCSPS at one of four rates in the range of 12 per cent to 18.5 per cent of pensionable pay based on salary bands. Rates will remain the same next year, subject to revaluation of the salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

There are three PCSPS schemes, Classic, Classic Plus, and Premium, providing benefits on a final salary basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80th (Classic) or 1/60th (Classic Plus and Premium) of pensionable pay for each year of service. A lump sum equivalent to three years' pension can be payable on retirement, either automatically (Classic), or in return for a reduction in the annual pension (Classic Plus and Premium).

Members of the PCSPS pay contributions of 1.5 per cent (Classic) or 3.5 per cent (Classic Plus and Premium) of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay (Classic) or three times pensionable pay (Classic Plus and Premium) and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Certain staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. The Council is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis.

USS members pay contributions of 6.35 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

Employees joining the Council after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension from one or more of a panel of four appointed stakeholder pension providers with an employer contribution. As at 31 March 2004 no HEFCE employees had opted to open a partnership pension account.

In accordance with HM Treasury guidance the Council has accounted for both the PCSPS and the USS as if they were defined contribution schemes.

Pension contributions payable by the HEFCE for the accounting period 2003-2004 are as follows

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Principal Civil Service Pension Scheme	998	884
Universities Superannuation Scheme	18	22
	1,016	906

There are no outstanding or prepaid contributions as at 31 March 2004.

6 Other administration

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Audit fee; external audit	29	29
Committee members, advisers and associated travel and subsistence costs	280	339
Consultancy fees	2,775	2,412
Council members honoraria and associated travel and subsistence costs	62	50
General administrative payments	839	808
Hospitality	10	11
Premises	730	700
Publications, printing, publicity	217	268
Recruitment and training	573	513
Relocation expenditure	11	0
<i>Rental payments under operating leases</i>		
Hire of plant and machinery	50	33
Other operating leases	1,107	1,100
Revaluation of assets	22	14
Telephone and postage	249	220
Travel and subsistence for staff	1,000	913
	7,954	7,410

The auditors received no remuneration for non audit services.

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Annual commitments under operating leases are as follows		
a Land and buildings		
<i>Leases expiring within</i>		
One year	0	0
Two to five years	226	226
More than five years	869	869
	1,095	1,095
b Others		
<i>Leases expiring within</i>		
One year	21	8
Two to five years	16	26
More than five years	0	0
	37	34

7 Tangible fixed assets

	Buildings	Furniture and office equipment	Information technology	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2003	16	244	357	617
Revaluation	0	0	0	0
Revaluation (impairment)	0	(2)	(33)	(35)
Additions	0	6	261	267
Disposals	0	(118)	(36)	(154)
At 31 March 2004	16	130	549	695
Depreciation				
At 1 April 2003	11	201	150	362
Charge for period	1	22	181	204
Revaluation	0	0	0	0
Revaluation (impairment)	0	(1)	(12)	(13)
Disposals	0	(118)	(36)	(154)
At 31 March 2004	12	104	283	399
Net book value				
At 31 March 2003	5	43	207	255
At 31 March 2004	4	26	266	296

8 Notional costs

The cost of capital for 2003-2004 has been arrived at by calculating a rate of 3.5 per cent (6 per cent in 2002-2003) to the average capital employed.

In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Capital employed as at 1 April	(316,490)	(336,949)
Capital employed as at 31 March	(361,016)	(316,490)
Average capital employed	(338,753)	(326,719)
Notional interest on capital	11,856	19,603

9a *Loans to Institutions*

	As at 31 March 2004 £000	As at 31 March 2003 £000
Balances as at 1 April	19,884	12,075
Advances during the year	4,324	8,276
Repayments during the year	(4,688)	(467)
Balances as at 31 March	<u>19,520</u>	<u>19,884</u>

None of the above loans are interest bearing.

	As at 31 March 2004 £000	As at 31 March 2003 £000
<i>Balances at 31 March repayable</i>		
Within one year	6,246	4,688
After one year	<u>13,274</u>	<u>15,196</u>
	<u>19,520</u>	<u>19,884</u>

The HEFCE Board has agreed the principles for the provision of loans (repayable grants) to institutions. These loans are provided within the total budget under the poor estates initiative and the restructuring and collaboration fund. Loans are only provided for projects which meet the criteria for the particular programme. Amounts provided are within the total funding for the programme approved by the Board. Repayable grants are normally for three to five years, but can be made for up to ten years and are interest free. Repayments are achieved through deductions from future grants.

As at 31 March 2004, seven institutions (2003: seven) had loans outstanding in excess of £1,000,000. The total value of these loans was £16,465,000 (2003: £16,496,000).

9b *Staff loans*

	As at 31 March 2004 £000	As at 31 March 2003 £000
Balances as at 1 April	2	4
Advances during the year	0	1
Repayments during the year	<u>(2)</u>	<u>(3)</u>
Balances as at 31 March	<u>0</u>	<u>2</u>

Loans for the purchase of bus and train season tickets are available to all HEFCE staff after a qualifying period of three months' service. These loans are interest free and are repayable through the Council's payroll over a period no greater than the duration of ticket.

	As at 31 March 2004 £000	As at 31 March 2003 £000
<i>Balances at 31 March repayable within</i>		
One year	0	2
Two to five years	<u>0</u>	<u>0</u>
	<u>0</u>	<u>2</u>

As at 31 March 2004 there were no staff loans outstanding.

9c Debtors

	As at 31 March 2004 £000	As at 31 March 2003 £000
Programme debtors: contributions due from other Councils	12,304	8,254
Trade debtors	397	165
Other debtors	29	0
Prepayments	381	358
	13,111	8,777

10 Details of balances at year end

	As at 31 March 2004 £000	As at 31 March 2003 £000
<i>Cash held at the Bank of England</i>		
In respect of programme funds	17,311	8,734
In respect of running costs	38	157
<i>Cash held at other banks and in hand</i>		
For running costs	13	2
Other funds held for the JISC European Networking Group	46	61
	17,408	8,954

The main bank accounts of the Council are held at the Bank of England in an Office of HM Paymaster General account and in consequence any interest is retained to the benefit of the Exchequer.

In cash terms the DfES authorises a working balance at 31 March of 2 per cent of the total Grant in Aid for the financial year. The cash balances above are within the margins, as follows

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Programme funds		
Grant received	5,592,161	5,068,878
2% thereof	111,843	101,378
Balances as above	17,311	8,734
Running costs		
Grant received	17,056	15,097
2% thereof	341	302
Balances as above	51	159

The DfES authorises a working balance in resource terms at 31 March of the relevant amount relating to slippage on capital programmes and a further £10,000,000 relating to other programmes. The HEFCE's resource balances at 31 March 2004 are as follows

Programme funds		
Capital and other	23,769	9,190
Recurrent	5,425	5,973
	29,194	15,163

11 Creditors: amounts falling due within one year

	As at 31 March 2004 £000	As at 31 March 2003 £000
Programme accruals	6,721	9,962
Trade creditors	68	48
Running costs accruals	131	136
Other creditors: European Networking Group	74	61
	6,994	10,207

12 Provisions for liabilities and charges

	As at 31 March 2004 £000	As at 31 March 2003 £000
Balance of provision at 1 April*	335,264	346,496
Additional charge in year	0	0
Provision utilised in year	(28,456)	(28,952)
Provision reversed unused in year	(3,544)	(3,070)
Unwinding of discount	11,734	20,790
Increase in provision**	72,010	0
Balance of provision at 31 March	387,008	335,264

* A provision has been recognised for inherited staff liabilities. These costs will be incurred as a result of the Councils statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. The provision has been recognised on the Balance Sheet as a long term liability.

** In accordance with FRS 12 the value shown has been discounted to its net present value at an HM Treasury prescribed rate. The rate for 2003-2004 is 3.5 per cent which is lower than the 6 per cent applied in 2002-2003 and previous years. The change in rate has led to an increase in the provision required and a charge of £72,010,000 has been included this year to reflect this. The net impact on the Income and Expenditure account in 2003-2004 is £63,616,000 (which reflects the additional charge to the provision of £72,010,000 less the difference in the unwinding of the discount at the lower rate of £8,394,000).

13 Financial commitments and contingent liabilities as at end of period

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2004 there are no contingent liabilities.

	As at 31 March 2004 £000	As at 31 March 2003 £000
The amount of grant committed for the period April to July 2004 is	1,904,794	1,762,380
The amount of grant committed for the academic year 2004-2005 is	5,993,000	5,485,000

Whilst there is no statutory obligation to do so, the HEFCE funds certain capital commitments for universities and colleges that were previously maintained by local authorities. These commitments are claim based and their value for 2004-2005 cannot be accurately measured (the equivalent value in the financial year 2003-2004 was £64,843,702).

14 Deferred government grant

	As at 31 March 2004 £000	As at 31 March 2003 £000
Balances at 1 April	255	240
Allocated from Grant in Aid (purchase of capital assets)	267	286
Revaluation increase	0	2
Released for the year	(226)	(273)
Balances at 31 March	<u>296</u>	<u>255</u>

Deferred capital grant represents funding used to finance the purchase of fixed assets. The release to the Income and Expenditure account in year represents the depreciation charge together with the charge to the I&E for impairment of fixed assets (downward revaluation).

15 General reserve movements

	As at 31 March 2004 £000	As at 31 March 2003 £000
Access and Hardship funds		
Balance as at 1 April	2,495	1,500
Surplus/(deficit) for the year	(1,457)	995
Balance as at 31 March	<u>1,038</u>	<u>2,495</u>
Programme grant		
Balance as at 1 April	(310,956)	(322,204)
Surplus/(deficit) for the year	(34,781)	11,248
Balance as at 31 March	<u>(345,737)</u>	<u>(310,956)</u>
Running costs		
Balance as at 1 April	607	730
Surplus/(deficit) for the year	129	(123)
Deficit on Revaluation reserve	0	0
Balance as at 31 March	<u>736</u>	<u>607</u>
Total		
Balance as at 1 April	(307,854)	(319,974)
Surplus/(deficit) for the year	(36,109)	12,120
Deficit on Revaluation reserve	0	0
Balance as at 31 March	<u>(343,963)</u>	<u>(307,854)</u>

16 Reconciliation of movement in funds

	As at 31 March 2004 £000	As at 31 March 2003 £000
Opening balance	(307,854)	(319,974)
Surplus/(deficit) per income and expenditure account	(36,109)	12,120
Net reduction in funds	<u>(36,109)</u>	<u>12,120</u>
Closing balance: General reserve	<u>(343,963)</u>	<u>(307,854)</u>

17 Related party transactions

The Council is a non-departmental public body sponsored by the DfES. The DfES is regarded as a related party, as are sister funding bodies: the Scottish Higher Education Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Teacher Training Agency, and the Learning and Skills Councils. The British Academy and the Economic and Social Research Council are also related parties.

In the course of allocating funding during the year, the Council entered into material transactions with the following related parties, to which the board members stated below are related parties

- Grants to City University, where **Mr Steve Bundred** is a member of the council.
- Grants to The Institute of Education, where **Mr Richard Coldwell** is a member of the council.
- Grants to the University of York, where **Professor Sir Ron Cooke** was formerly Vice-Chancellor; and to UK eUniversities Worldwide Ltd where he is a director.
- Grants to Newcastle College, where **Mrs Jackie Fisher** is Principal.
- Grants to Norwich City College of Further and Higher Education, where **Ms Caroline Neville** was Principal; and to Anglia Polytechnic University where she was a governor.
- Payments to Universities Superannuation Scheme Limited where **Sir Howard Newby** is a board member.
- Grants to Imperial College, where **Dr David Potter** is Chairman of the College Seed Fund; and to London Business School where he is a member of the Foundation for Entrepreneurial Management.
- Grants to Wolfson College Oxford, where **Professor Sir Gareth Roberts** is President; and payments to Universities Superannuation Scheme Limited where he is a board member.
- Grants to the University of Nottingham where **Professor Peter Rubin** is Professor of Therapeutics.
- Grants to Brunel University, where **Mr Peter Saraga** is a member of the university court; to the University of Surrey, where he is a member of the council and to Imperial College where he has been a visiting Professor in the Department of Electric and Electronic Engineering.
- Grants to Kingston University, whose Vice-Chancellor is **Professor Peter Scott**; to St. George's Hospital Medical School, where he is a member of the council; and to the Bolton Institute of Higher Education where he is chair of an advisory committee.
- Grants to Imperial College of Science, Technology and Medicine, where **Sir Richard Sykes**, is Rector.
- Grants to Oxford University, where **Sir John Taylor** is a visiting Professor; and Cambridge University where he is an honorary fellow of Emmanuel College.
- Grants to University College Northampton, where **Mrs Ann Tate** is Rector.
- Grants to University of Coventry, where **Ms Dorna Urwin** is a governor; and to UK eUniversities Worldwide Ltd, where she is a director.

The Council has had no material transactions with companies whose directors are closely associated with the Council. In this context, closely associated refers to existing or former Council board members, or directors.

Board members, former board members and directors have other relationships through family members who are employees or students at institutions funded by the Council or through membership of governing bodies. These do not give rise to material transactions which need to be disclosed.

Details of relationships are held in the Council's register of interests and are also available on our website www.hefce.ac.uk under 'About us'.

Appendix 1

Full analysis of Recurrent and Capital Grants as summarised in Note 4 to the Annual Accounts: unaudited

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Basic recurrent grant	4,356,405	4,098,537
Rewarding and developing staff	159,354	105,929
Learning and teaching		
Chinese studies initiative	1,157	974
Dance and drama	5,634	6,267
Existing projects	(17)	18
Foundation degree development (including FDF)	2,059	3,428
HE in FECs Development Fund	8,182	7,348
Minority subjects	3,152	3,080
National flying laboratory centre	310	337
New Technology Institutes	12,804	7,305
Quality Assurance Agency	3,556	4,072
Teaching Quality Enhancement Fund	30,302	29,785
	67,139	62,614
Widening participation		
Aimhigher: Partnerships for Progression	27,871	1,194
Excellence challenge	6,064	5,936
Excellence fellowships	650	940
SLDD and regional collaborative projects	4,301	9,319
Summer schools	4,744	3,852
Support for access administration costs	0	2,264
	43,630	23,505
Research		
Arts and Humanities Research Board	62,422	58,465
Collaborative research scheme	0	5,863
Copyright libraries	2,719	2,657
Higher Education Policy Institute	234	111
Overseas Research Students Awards Scheme	13,307	11,837
Research into teaching and learning	2,574	2,719
Research support libraries programme	4,501	6,175
Specialist research libraries in the humanities	241	483
	85,998	88,310
Business and community		
Active Community Fund	11,414	7,739
HEROBC	18,703	22,219
Higher Education Innovation Fund	24,598	24,604
	54,715	54,562
Building on institutions' strengths		
Restructuring and Collaboration Fund	33,046	48,225
Strategic Development Fund	911	0
	33,957	48,225

	Year ended 31 March 2004 £000	Year ended 31 March 2003 £000
Leadership, governance and management		
Costing and pricing initiative	333	1,143
Equal opportunities	285	456
Estates good practice	(24)	140
Golden Hellos	2,244	0
Leadership Foundation for Higher Education	450	0
Management Development Fund	1,988	2,037
PPP/PFI initiatives	300	951
Procurement initiatives	329	342
VFM and institutional studies	0	109
	5,905	5,178
Residual special funding (including inherited activities)		
College fees	7,572	9,446
DfES Innovations fund	169	1,938
HERO (Phase 2)	508	1,097
HESP	344	0
Inherited liabilities	64,843	50,769
International Initiatives	307	377
Joint Information Systems Committee	61,498	56,157
London	12,348	11,381
Marine biology field station	231	481
Miscellaneous	201	(752)
	148,021	130,894
Capital		
eUniversity	5,952	16,085
IT Infrastructure	1,702	2,795
Joint Infrastructure Fund	24,818	55,952
Joint Research Equipment Initiative	3,594	4,154
Laboratory refurbishment initiative	3,854	7,086
Medical expansion	25,568	31,999
Poor estates initiative	46,636	46,060
Project capital	156,537	69,058
Science Research Investment Fund	349,584	204,698
SuperJANET 4	606	11,734
SuperJANET transatlantic network	3,647	1,250
Tomlinson	16,034	4,504
	638,532	455,375
Total recurrent and capital grants	5,593,656	5,073,129
Access and Hardship funds	110,192	105,021
	5,703,848	5,178,150

Basic Recurrent Grant: Block grant for teaching and research.

Rewarding and Developing Staff: Funding for HEIs strategies to recruit, retain, and develop staff, and to help modernise human resource management processes in the sector.

Learning and teaching

Chinese studies initiative: Funding to strengthen and expand the provision for teaching and research in Chinese studies.

Dance and drama: Scheme to allow dance and drama students to exploit their talents through the provision of funding for non-HEFCE institutions that provide high quality dance and drama training at HE level.

Existing projects: Funding for the teaching and learning technology programme (TLTP) to encourage the greater use of IT in teaching and learning and early rounds of FDTL.

Foundation degree development and FDF: Funding to develop and launch new intermediate-level qualifications, in partnership with employers. Foundation Degree Forward (FDF) has been set up to provide a support network of expertise in Foundation Degree development.

HE in FECs Development Fund: Fund to promote the development of higher education in further education colleges.

Minority subjects: Additional funding for subjects which are unlikely to attract a ratio of students to staff that could be maintained through basic recurrent grant.

National flying laboratory centre: Funding for a national facility offering flying time for aeronautical courses.

New Technology Institutes (NTIs): Funding for the establishment of regional institutions designed to meet the demand for information technology skills and to help small and medium sized enterprises to more efficiently exploit new technology and innovative business practices.

Teaching Quality Enhancement Fund (TQEF): Institutional, subject and individual strands to promote and reward excellence in teaching. This includes the National Teaching Fellowships Scheme, the fund for the development of teaching and learning (FDTL) and the Learning and Teaching Support Network (LTSN).

Quality Assurance Agency: Funding to secure the assessment of the quality of education provided by individual institutions.

Widening participation

Aimhigher/Partnerships for Progression: A joint initiative between the HEFCE and the LSC funding regional HE/FE partnerships in order to widen and increase participation in higher education.

Excellence challenge (aspiration funding): Funding for a limited number of institutions to support their plans to increase access, raise aspirations, and widen the participation in higher education of under represented groups.

Excellence fellowships: A special initiative under the 'Aimhigher' programme which funds HEI placements for teachers designed to raise the aspirations and attainment of young people to enter higher education.

Students with learning difficulties and disabilities (SLDD) and other regional collaborative projects: Targeted funding to promote widening participation in under-represented social groups. SLDD specifically encourages institutions to develop high quality provision for students with disabilities.

Summer schools: Part of the Excellence in Cities initiative, this programme provides year 11 school pupils with an opportunity to experience higher education for a week at selected universities and colleges.

Support for access administration costs: Contribution to the administration costs of Access Funds borne by HEIs.

Research

Arts and Humanities Research Board: Funding to support advanced research in the arts and humanities and to promote and support excellence in research in these fields. Also the Council's contribution towards the costs of operating and maintaining museums, galleries and collections at individual institutions but accessible by all institutions.

Collaborative research scheme: Funding to encourage collaborative research, primarily between former Polytechnics and Colleges Funding Council funded institutions.

Copyright libraries: Additional funding for copyright libraries that allow free access to researchers from within the United Kingdom higher education community.

Higher Education Policy Institute (HEPI): The HEPI is a company limited by guarantee whose function is to consider, develop, and promulgate policy advice and related matters in the field of UK higher education.

Overseas Research Students Award Scheme (ORSAS): The Council's contribution to a scheme to attract high quality overseas research students to UK HEIs.

Teaching and Learning Research Programme: Fund to promote high quality research on education, particularly teaching and learning.

Research support libraries programme: Funding to recognise additional costs of providing external access to major research libraries.

Specialist research libraries in the humanities: Funding to support the additional costs of certain specialised research collections widely used by researchers throughout the education sector (now part of the research support libraries programme).

Business and Community

Active Community Fund: Funding to enhance the key role played by HEIs in the local community. Part of the Government's wider Active Community initiative which aims to involve more people in voluntary activity in their local communities.

Higher Education Reach Out to Business and the Community (HEROBC): Funding to promote the application of knowledge from teaching and research activities in collaboration with industry, business and the community.

Higher Education Innovation Fund (HEIF): Funding for activities that will increase HEI's capability to respond to the needs of business where this will lead to identifiable economic benefits.

Building on institutions' strengths

Restructuring and Collaboration Fund: Funding to support strategic changes within the higher education sector and to support collaborative activity between HEIs.

Strategic Development Fund: Discretionary funding to facilitate constructive development change, at a strategic level, within the higher education sector.

Leadership, governance and management

Costing and pricing initiative: Promotion of increased accountability to stakeholders, improved management information and the integration of academic and financial decision making.

Equal opportunities: Promoting improved equal opportunities in HE. Funding includes the Equality Challenge Unit which supports the work of UK HE institutions in improving equal opportunities for their staff and providing a sector level view of progress.

Estates good practice: Promoting research, innovation and strategic change in estates and facilities management.

Golden hellos: A recruitment and retention incentive scheme for new teachers in higher education.

Leadership Foundation for Higher Education: A resource to develop world-class programmes for leaders, governors and managers in higher education. The foundation will incorporate the activities of the Higher Education Staff Development Agency (HESDA).

Management Development Fund: Funding for projects that develop the application of good management practice in HEIs.

Public Private Partnerships and Private Finance Initiatives: Promotion of the Private Finance Initiative (PFI) and other forms of Public Private Partnership (PPP) through the use of pathfinders; and addressing VAT barriers to PFI solutions.

Procurement initiatives: Promotion of effective procurement and increased collaboration within the higher education sector.

Value for money (VFM) and institutional studies: Project funding for specific topic or institutional studies. Includes funding of projects within the Council's own research and development programme in support of its strategic aims.

Residual special funding (including inherited activities)

College fees: Additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000, to be phased out over 10 years.

DfES Innovations fund: Funding to support development projects which apply new ideas to important current issues in HE, and which have a real prospect of leading to significant and widespread improvements.

Higher Education and Research Opportunities (HERO): Funding to allow the HE internet portal to develop its services during the second stage of operation to August 2005.

Higher Education Student Portal (HESP): Funding for a project to widen awareness of HE opportunities to potential students via the internet.

Inherited liabilities: Reimbursement in respect of liabilities inherited by institutions formerly under the control of local authorities when these were incorporated as independent institutions.

International initiatives: Funding for specific projects to assist promotion of UK higher education overseas.

Joint Information Systems Committee (JISC): Funding to the JISC to support strategic guidance, advice and opportunities in the use of information and communications technology (ICT) in the higher education sector.

London: Contribution toward the additional costs of operating in London, including supplementary pensions.

Marine biology field station: Funding for a national cold water marine station at Millport.

Miscellaneous: Other funding for teaching and research not included in formula allocations or included above.

Capital

e-University: Ongoing capital costs for the eUniversity project.

IT infrastructure: Funding of projects to support IT infrastructure including the development of the Distributed National Electronic Resource (DNER) and development of new and existing Metropolitan Area Networks (MANs).

Joint infrastructure fund: Earmarked funding to address past under-investment in the research infrastructure. Specific project funding for institutions' priority areas and to contribute to the joint infrastructure fund.

Joint research equipment initiative (JREI): Funding, in conjunction with the Research Councils, to enable institutions to purchase expensive pieces of research equipment with the help of matched funding from industry.

Laboratory refurbishment initiative: Funding to refurbish laboratories to address the infrastructure shortfall as a whole, as identified by surveys of research equipment.

Medical expansion: Contributions to capital and start up costs resulting from the expansion of intakes to medical schools.

Poor estates initiative: Funding to replace or refurbish sector buildings that are in poor condition.

Project capital: Formulaic distribution of earmarked funding to assist with improving research and teaching facilities, laboratories and equipment.

Science research investment fund (SRIF): Funding for major projects which will have a significant impact on HEI's research infrastructure.

SuperJANET 4: The development of SuperJANET 4 to increase bandwidth, capacity and resilience of the JANET (Joint Academic Network) backbone and the MANs that link to it.

SuperJANET transatlantic network: Specific funding programmes to increase the capacity and capability of the transatlantic network.

Tomlinson: Grant towards the capital cost of the reorganisation of medical education and research in London.

Access and Hardship funds

Funding to HEIs to provide financial help to those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs. Includes bursaries for teacher training (Post Graduate Certificate in Education).

Appendix 2

Accounts Direction given by the Secretary of State for Education and Skills in respect of Accounts from 1 April 2001

The Secretary of State for Education and Skills with the approval of the Treasury, in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1) and the Financial Memorandum between the Department for Education and Skills and the Higher Education Funding Council for England, gives the following Accounts Direction.

- 1 The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the year-end.
- 2 Subject to this requirement the HEFCE shall prepare accounts for the financial year from 1 April 2003 to 31 March 2004 and subsequent financial years in accordance with
 - a Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
 - b other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - c any other specific disclosures required by the Secretary of State;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Signed by authority of the Secretary of State for Education and Skills

Michael Hipkins
 Divisional Manager
 Higher Education Funding and Organisation Division
 Department for Education and Skills

9 October 2001

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